Air Force Materiel Command

Developing, Fielding, and Sustaining America's Aerospa

U.S. AIR FORCE

Purchasing and Supply Chain Management

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Overview

- Why Transform Purchasing and Logistics Processes
- What is Purchasing and Supply Chain Management (PSCM)
- How Are we Implementing PSCM in the Air Force
- Where Are We in the Implementation Process

The Transformation Call

Every day, we are faced in this Department with urgent near-term requirements that create pressure to push the future off the table.

But September 11th taught us that the future holds many unknown dangers—and that we fail to prepare for them at our peril.

Our challenge is to make certain that, as time passes and the shock of what befell us that day wears off, **we do not simply go back to doing things the way we did them before.**

Secretary Rumsfeld

The Challenge

We have to first admit that we are in ruts. We are in stovepipes. We have been taught to think one way. We have been taught to defend our prerogatives…we've got to break out of that…we've got to be prepared to **bust bureaucracies**.

General Jumper

Why We Need to Transform AF Logistics

- Logistics must evolve with global operational doctrine & CONOPS
- We must/can do SIGNIFICANTLY better
  - Operational Performance
  - Affordability
- Improvements limited by current business and IT architecture
  - Must change the underlying model / foundation
- Requires revolution in thinking and action
  - Cross organization/functional, enterprise wide integration
  - Benchmarks and tools readily available

We've reached the fork in the logistics road!

PSCM Case for Change

- **3.3% of 20K 'active' items have been placed on eleven strategically sourced contracts. Purchases against these contracts represent 5% of FY02 and FY03 YTD spent**
- **Our end-to-end cycle time for buy parts (Demand Planning + Purchase Requisition + Admin lead time + Production lead time) averages 660 days**
- **Although recent improvements have been made, $28.8 billion inventory exists across the AF supply chain, in part, due to long cycle times**
- **25% to 28% of all PRs are received by contracting inside the standard production lead time (PLT), e.g. need date cannot be met with the standard PLT**
- **Deficiency reports (DRs) from customers averages over 80 days to resolve, freezing cash during that time period**
- **Suppliers, including organic repair, are not measured or treated as strategic partners, minimizing the opportunity to reduce costs and improve service**
- **199 IT system interfaces are used throughout the end-to-end process adding handoffs, complexity over the "source of truth", and cost**
- **51% of AFMC logistics and 33.5% of AFMC contracting and manufacturing professionals are eligible to retire within five years**

AF Stretch Goals

- **Everything we do and dollars we spend must be measured in terms of meeting availability and cost goals**
  - **<u>20% increase in aircraft availability within the next three years</u>**
  - **<u>Zero O&S cost growth over the FY04-09 FYDP</u>**
  - **Subordinate goals must tie to overall targets**
- **Everyone in the AF must be held accountable for meeting their share of the goals**
  - **Rewards must be tied to goal achievement**
- **Keep it simple and direct**

Commitment Declaration

Sustainment Transformation

We are committed to actively lead and support the Purchasing and Supply Chain Manageme
Depot Maintenance transformations. Our leadership will be evident by:

- Active leadership and guidance
- Visible Support
- Investments that mirror the transformation strategy
- Personal time and interest

We are committed to fundamentally changing our business processes through these guiding

- Enterprise-wide leverage (Standard processes, technology, organization structure, skills)
- Centralized Commodity-focused sourcing
- Collaborative relationships with Customers and Strategic Suppliers
- One Supply System that is responsive to customers
- Well trained and educated workforce that is flexible, multi-skilled and sustains continuous improvement
- Top-down strategic planning processes
- Single Balanced Scorecard with alignment of responsibility, authority and accountability
- Information technology that provides accurate, timely data

Signatures: **July 25, 2003**

General Lester Lyles Commander AFMC

Lt. Gen. Coolidge HQ AFMC/CV

Lt. Gen. Zettler AF/IL

Dr. Stewart HQ AFMC/CD

Mr. Dunn AF/ILI

Mr. Williams SAF/AQC

Maj. Gen. Gabreski HQ AFMC/LG

Maj. Gen. Johnson OC-ALC/CC

Maj. Gen. Wetekam WR-ALC/CC

Maj. Gen. Sullivan OO-ALC/CC

Brig. Gen. Faykes HQ AFMC/FM

Mr. Davis WR-ALC/CD

Mr. Miner OO-ALC/CD

Mr. Conner OC-ALC/CD

Ms. Walker HQ AFMC/LG

Mr. Wells HQ AFMC/PK

Mr. Koenig HQ AFMC/LG

PSCM Vision, Mission and Strategy

Simple Vision

Be the Sustainment Supplier of Choice for worldwide Weapons Systems parts and equipment support

Simple Mission

Improve Readiness through PSCM transformation

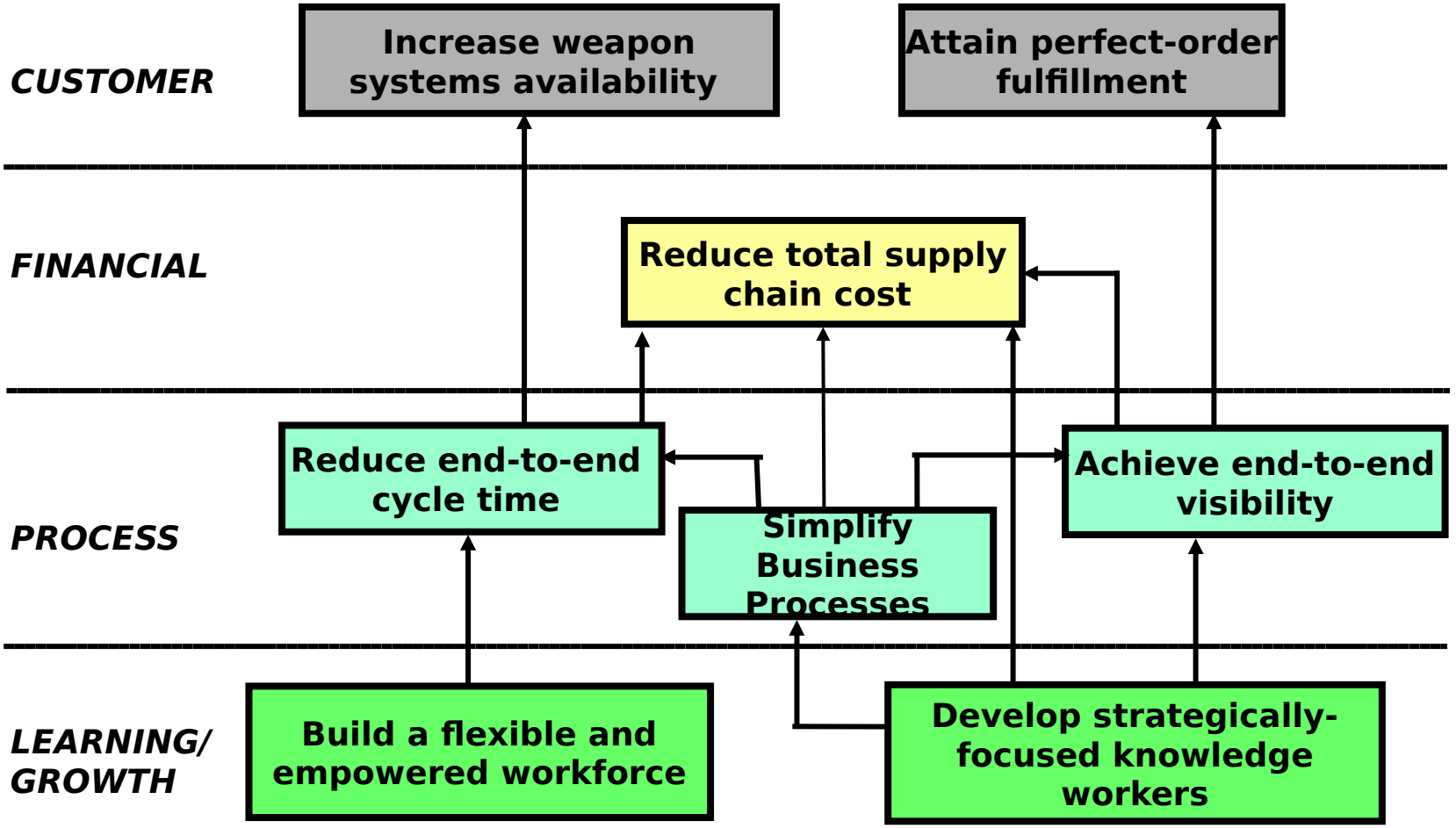
Simple Strategy

To deliver on our promises we will…..

- *Collaborate with Customers & Suppliers*
- *Build Seamless End-to-End Processes*
- *Design in Process Flexibility and Agility*
- *Integrate Purchasing and Supply Functions*
- *Develop PSCM as a Core Competency*

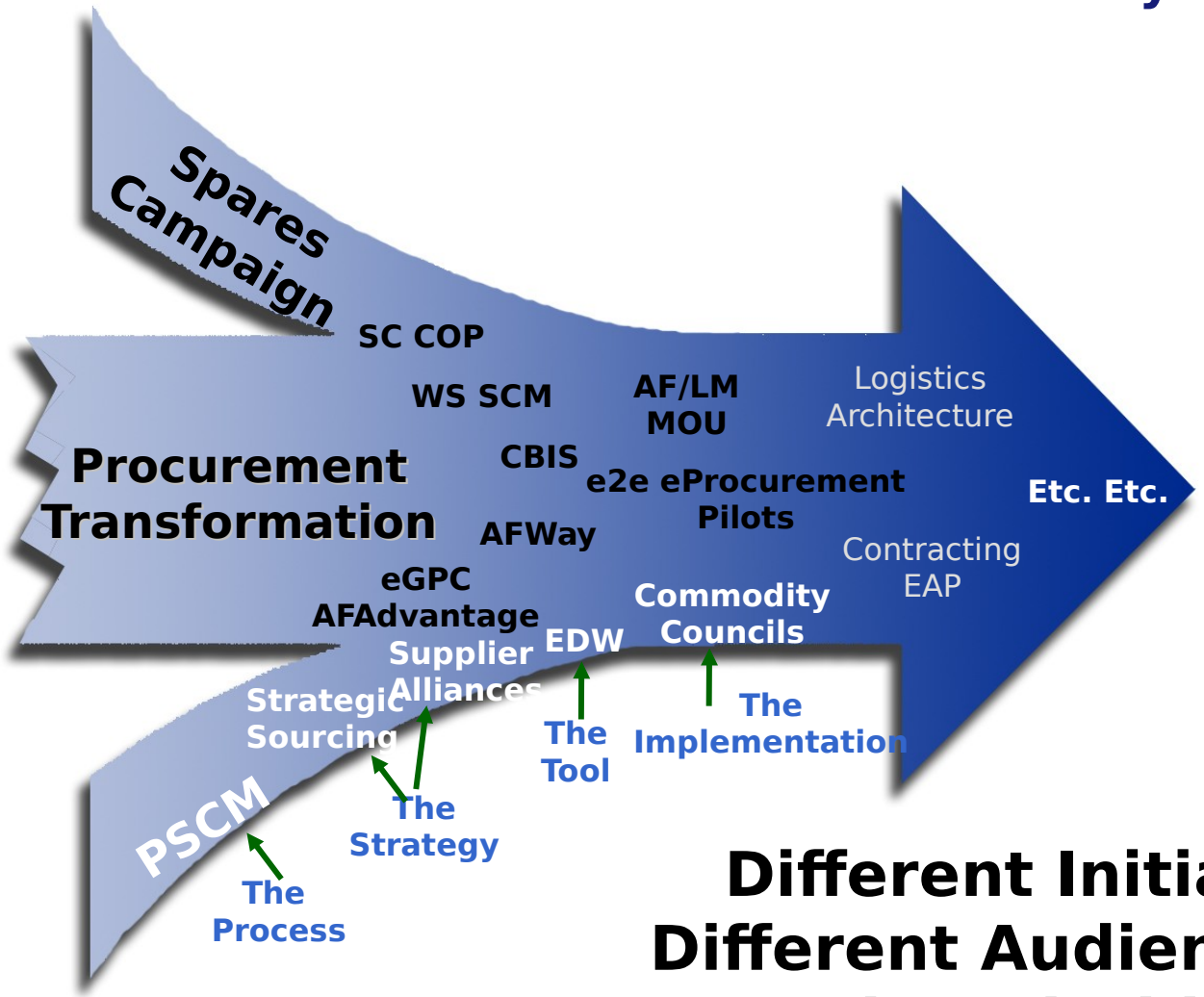
PSCM Goals

Air Force leadership has approved a balanced scorecard to drive the design



Transformation Requires Collaboration

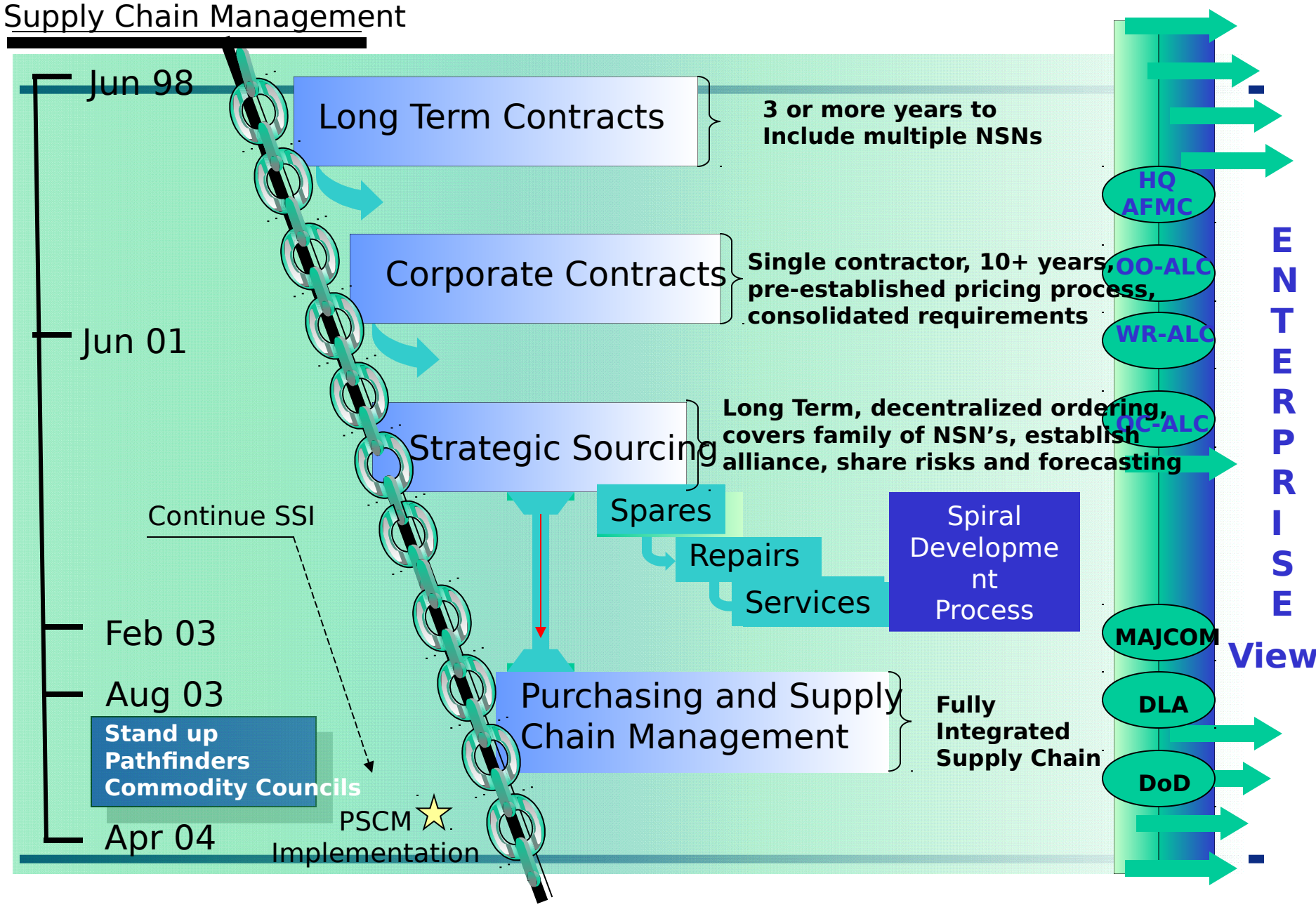
Procurement Transformation – Synergy of Efforts



- Improve customer support
- Reduce purchase cost of items
- Increase quality of goods and services
- Accelerate delivery responsiveness

Different Initiatives . . . Different Audiences . . . But Shared Objectives

Migration of Sourcing Methods



The 'P' in PSCM!

- Focuses on the mechanism for sourcing goods and services
- Takes a more strategic approach to purchasing
  - Larger, longer-term, continuous improvement relationships with best suppliers
- External market analysis informs purchasing strategy development
- Performance based contracts
- Proactive supply base management
- Proactive supplier management

Strategic Sourcing

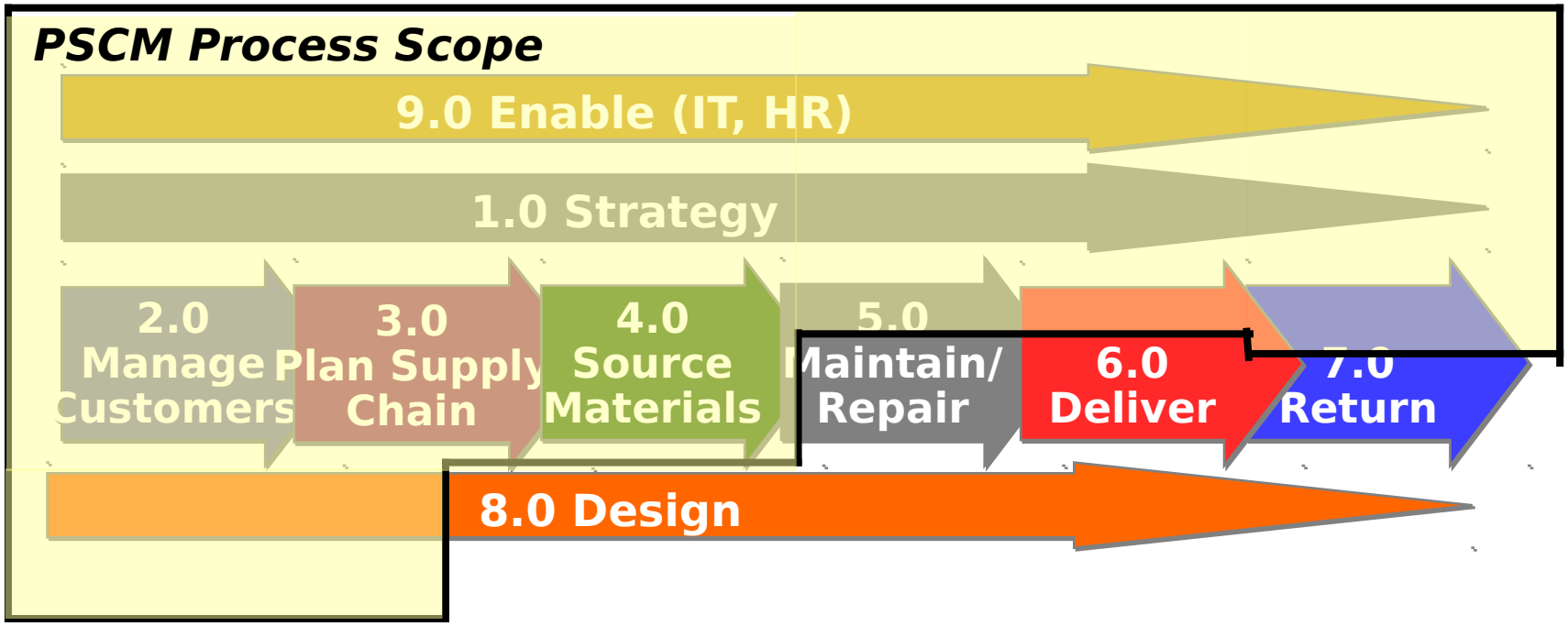
The 'S' in PSCM !

- **Focuses on requirements definition and integration**
  - **Specifies performance characteristics from "customer's" perspective**
  - **Provides demand analysis and forecasted requirements for supplier capacity planning and scheduling purposes**
  - **Provides actual demands to suppliers for operational purposes (e.g., e-commerce)**
- **Develops sourcing strategy based on the design and characteristics of the supply chain and product**
  - **Logical**
  - **Physical**
  - **Push versus pull**
- **Determines the degree of integration with suppliers based on the relative importance to mission of each supply chain**
- **The extent of each supply chain's criticality and characteristics influences the degree of integration with suppliers**

ntegrated Supply Chain Managemen

PSCM Scope

PSCM is the integration of purchasing and supply processes into a single end-to-end enterprise process



The PSCM scope includes buy & repair of spare parts, equipment items and associated engineering services

Integrated PSCM Business Model

DYNAMIC STRATEGIC PLANNING & GOVERNANCE

Top-down driven, closed-loop Strategy

Centralized, Enterprise-wide Business Rules:
Logistics, Inventory, Network, Sourcing & Supplier Mgt

Portfolio Management

Balanced Scorecard (BSC)

Customer Relationship

- Integrated order fulfillment
- Customer self-service
- Proactive customer analytics
- Single-face for issues
- Rapid and visible returns management
- On-line catalogs with digitized tech data

Integrated Supply Chain Planning

- Unconstrained AND constrained plans
- Constraint mitigation
- Real-time synchronization of demand, supply, and budget
- "What-if" simulation capability
- Collaboration with suppliers & customers

Strategic Purchasing

- Commodity-centric Sourcing
  - * Leverage common parts
  - * Reduce product and process cost
- Enterprise-wide leverage
- Ongoing structure for:
  - * market intelligence
  - * maintenance of strategies
  - * supplier performance improvement
- Performance-based contracts

Supplier Relationship

- Proactive partnering alliances
- Supplier scorecards
- Lean, collaborative intra-company processes
- Organic depots/DLA as strategic partners

END-TO-END SUPPLYCHAIN MANAGEMENT

Simplified & automated

Transparent information visibility

Data as a Strategic Resource

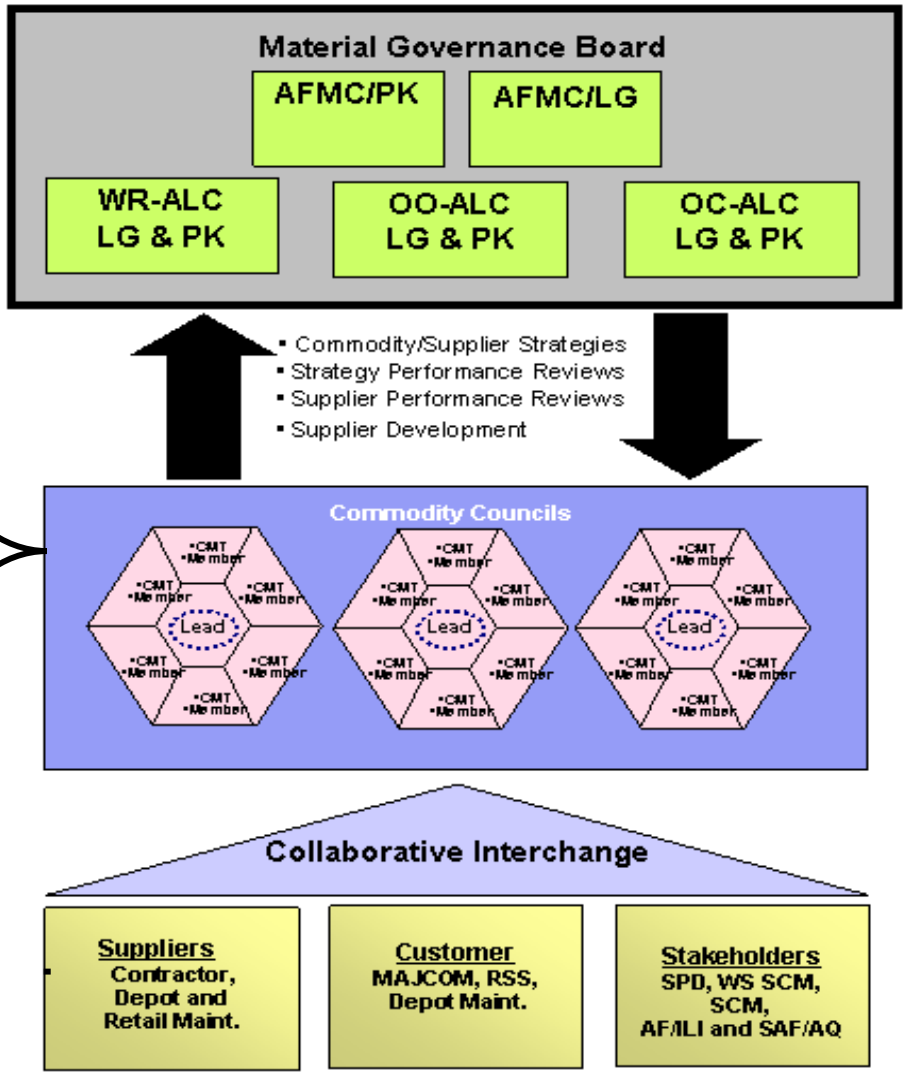
Strategically-Focused

Three Commodity Council Path Finders and Structure

COMMODITY COUNCIL:
Miscellaneous Aircraft (gear boxes, actuators, accumulators)
Federal Stock Class: **1680**
LEAD: **OC (with WR, OO membership)**
Team Lead: Wes Anderson
Total SPEND: **$164M**
Crosses Multiple ALCs

COMMODITY COUNCIL:
Support Equipment
Federal Stock Class : **4920***
LEAD: **WR**
Team Lead: Rita Blair
Total SPEND: **$118M**
Crosses Multiple Product Directorates

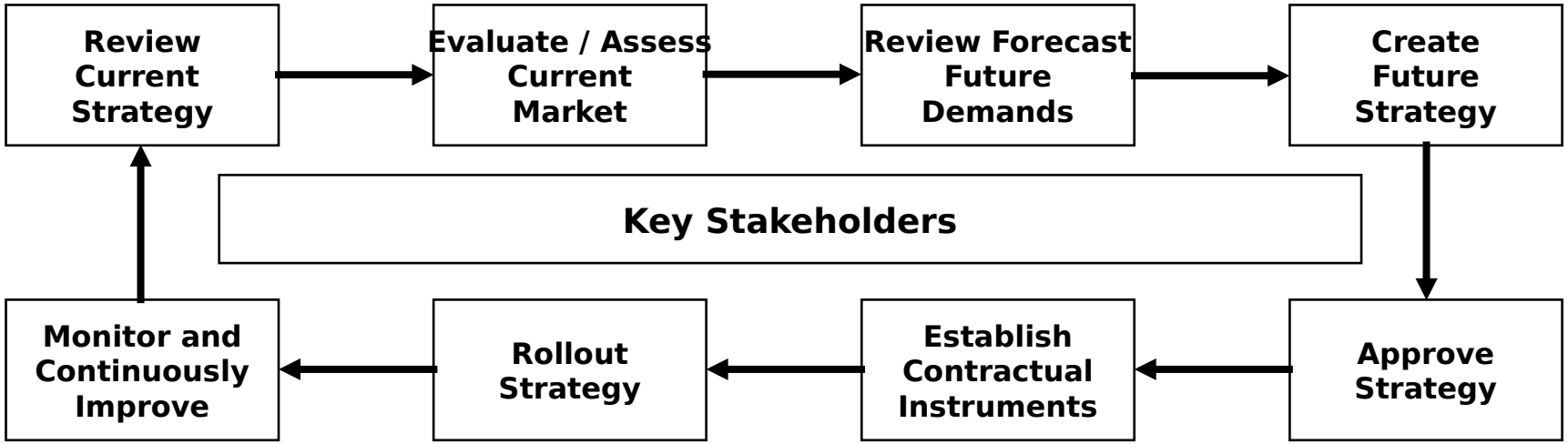
COMMODITY COUNCIL:
AC Landing Gear Components /
AC Wheel & Brake Systems /
AC Tires & Tubes, Pneumatic
Federal Stock Class : **1620 /1630 / 2620**
LEAD: **OO, Team Lead: Ruth Abid**
Total Spend: 289.2
Stable team –
Moving from item to commodity strategy



Commodity Council Process Overview

Each Commodity Council will have adequate cross-functional representation and will utilize a standardized process

Commodity Council Process



What Is Different For Suppliers

- **One AFMC Sustainment Enterprise**
  - Consistent Processes, IT and Organizational Structure
- **Sourcing at Commodity vs. NSN level**
  - Leverage AF Business
  - Demand Reduction through Reliability Analysis
- **Collaborative Relationships with Strategic Suppliers**
  - Key Suppliers treated as extension of AF supply chain
  - Collaborative forecasting and information sharing
- **Supplier Metrics Aligned to Balanced Scorecard**
  - Ongoing cost and cycle time improvements for AF/Supplier processes
- **Successful Suppliers (both large and small business) will be those that provide capabilities**

AF PSCM Expectations

Aggressively Implement Strategic Sourcing ASAP

- **Stand up all Commodity Councils NLT end of FY 04 (#TBD)**
- **Major Supplier Alliances in place NLT end of FY 04**
- **100% Commodity spend sourcing strategies NLT end FY 05**
  - **50% buy/70% repair via Performance Based arrangements**

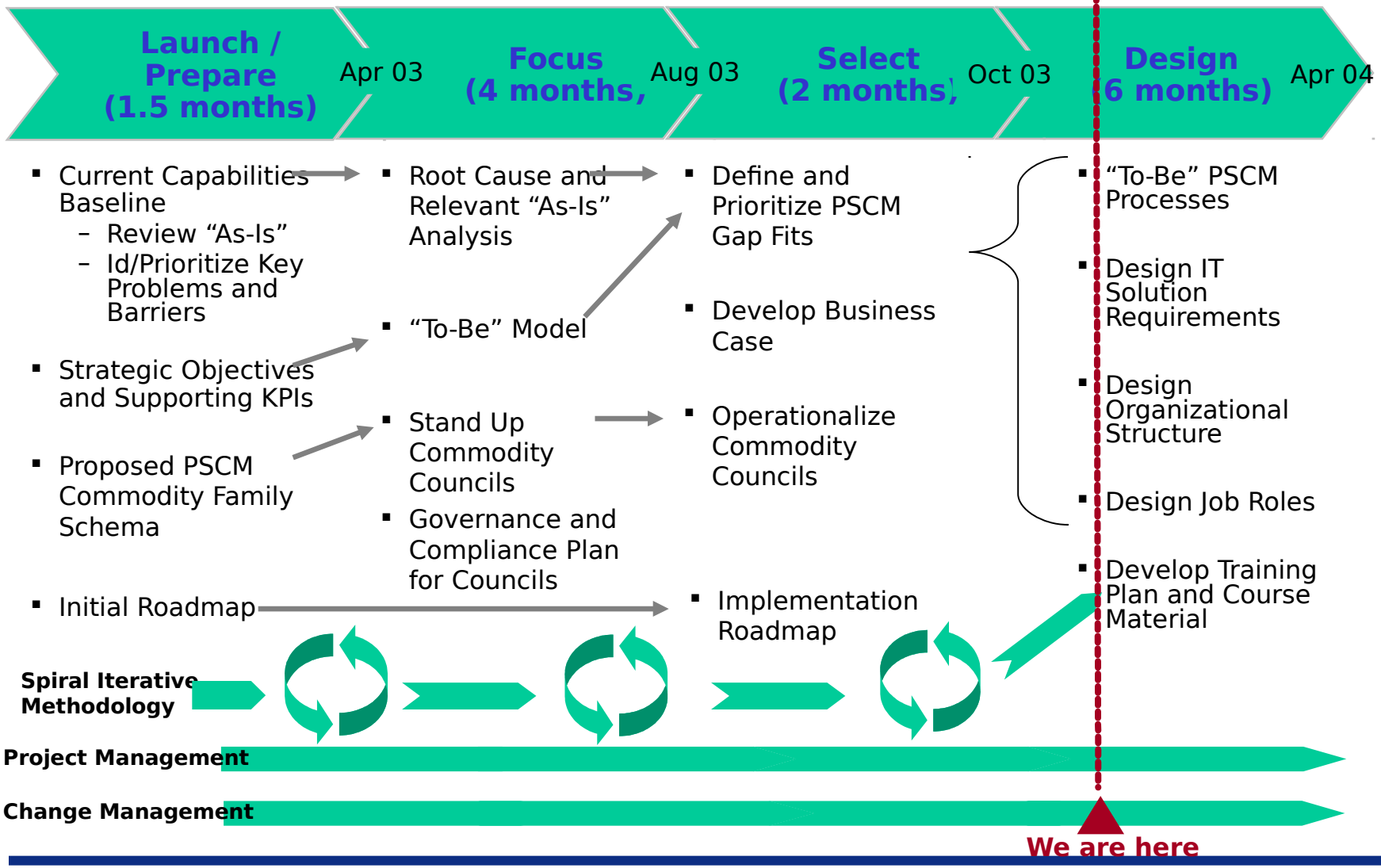
Implement PSCM Process, organization, system, & personnel changes

- **Complete PSCM operational architecture – Mar 04**
- **Align PSCM architecture to Log EA and Future Single Supply COTs solution set – end of FY 04**
- **Implement Advanced Planning and Scheduling – FY 03-05**
- **Implement Future Single Supply solution – FY 04-06**

✓50% decrease in total cycle time … 20% SMA improvement

✓20% decrease in material purchase and repair costs

Phased and Iterative Project Approach



PSCM Highlights-to-Date

- Mapped **“As-Is” processes** and conducted targeted root cause analysis
- Defined and quantified **high impact issues** across the end-to-end process
- Defined **Balanced Scorecard** to focus the PSCM design
- Selected and initiated 3 **commodity council “pathfinders”**
- Identified **governance structure and process** for the three “pathfinders”
- Mapped and integrated **to-be process mapping** (level 4 detail), baking in leading practices as they best apply to the Air Force
- Conducted an **Air Force leadership session** that resulted in a declaration of leadership support and agreement to high-level

Benefits Summary

Opportunities

- Customer and supplier collaboration
- "What-if" analyses on constrained and unconstrained supply plans
- Flexible funding allocation
- Enterprise-wide commodity strategies
- Single face to customer
- Single face to supplier
- Supplier performance improvement
- Ongoing continuous improvement
- Real-time supply chain visibility
- Inventory/logistics strategies
- Data integrity in file maintenance
- Supply plans based on demand requirements (no Purchase Requisitions)
- Streamlined signature levels
- Strategic contracts based on commodity-based strategies

Air Force PSCM Challenges

→ Weapon Systems Availability

→ Supply Chain Cost Reduction

→ Cycle Time Improvements

Summary

- **PSCM is the redesign and integration of purchasing and supply processes**
  - Improve aircraft availability by 20%
  - Reduce costs by 20%
  - Reduce end-to-end cycle time by 50%
- **Components of the PSCM vision include:**
  - Commodity-centric strategic sourcing
  - Flexible supplier contracts for applying logistics strategies
  - Long-term, continuous improvement strategic relationships
  - Collaboration with suppliers and customers
  - Strategic face to both customers and suppliers
- **We have identified significant opportunities where we can improve**

PSCM Key Next Steps

- **Conduct 2nd PSCM Leadership Session**
  - Review “to-be” process with senior leadership
  - Finalize PSCM balanced scorecard targets
  - Initiate organizational design principles
- **Finalize validation of PSCM level 4 processes**
- **Integrate processes with complementary initiatives**
- **Refine functional requirements for IT in support of processes**
- **Initiate job and organizational design to enable the PSCM processes**
- **Conduct gap analysis (skills, IT, process) between “as-is” and “to-be” environment to support business case**

PSCM Organization